United Kingdom's rating reaffirmed at 'CareEdge AA-/Stable'

Issuer rating (Long-Term Foreign Currency)	CareEdge AA-/Stable (Unsolicited)

Rating action
CareEdge Global has reaffirmed the Long-Term Foreign Currency issuer rating for United Kingdom at '**CareEdge AA-/Stable**' (Unsolicited).

Rationale
The rating reaffirmation is based on our assessment that the UK's large, diversified, and high-income economy continues to be resilient to external shocks. The pound sterling remains a reserve currency. The UK's well-developed financial systems and a broad investor base ensure steady market access. Institutional strength remains a key credit pillar, supported by credible policymaking, an independent central bank, and transparent fiscal oversight frameworks, including the Office of Budget Responsibility (OBR).

However, credit weaknesses persist. Public debt remains elevated at almost 100% of GDP, constraining fiscal space. The government's flexibility to implement meaningful spending cuts is limited, reflecting political and social constraints. Medium-term growth prospects are modest, with productivity trends weak and declining. The business investment environment remains subdued compared with peers, limiting capital deepening.

Outlook: Stable
The stable outlook reflects expectations that the UK will maintain its strong institutional framework and credible policy settings, enabling it to gradually strengthen fiscal metrics and sustain moderate economic growth despite the ongoing structural and political challenges.

Upside scenario
The outlook can be revised to positive in case of faster-than-expected improvement in debt metrics, supported by stronger nominal GDP growth, declining debt-servicing costs, or structural spending reforms, leading to a clear downward trajectory in debt-to-GDP to 90-95% by 2028.

Downside scenario
The outlook can be revised to negative if fiscal metrics deteriorate, including persistently higher deficits and debt, coupled with loss of investor confidence and weakening external indicators such as widening current account deficit or increased funding pressures.

Key rating drivers

Economic structure & resilience

The UK benefits from a large, diversified, and high-income economy, with nominal GDP estimated at about USD 4.0 trillion in 2025. Economic growth remains subdued, with real GDP expanding by around 1.4% in 2025, following 1.0% in 2024. The medium-term outlook is for modest growth of 1.2%-1.3% annually, constrained by structural factors and weak external demand.

The UK's growth potential is constrained by weak productivity performance. Labour productivity growth averaged 0.5%-0.6% annually since 2010, well below pre-global financial crisis trends, reflecting limited efficiency gains and rising labour input. Structural drivers/constraints include low investment, weak diffusion of innovation, skills mismatches, and reduced business dynamism, all of which weigh on potential output.

Offsetting these constraints, the UK is pursuing measures to strengthen its medium-term growth outlook. The National Infrastructure Pipeline, comprising over 730 projects worth about £700+ billion, is expected to support investment, improve connectivity, and alleviate infrastructure bottlenecks. In addition, the UK's strong position in artificial intelligence (AI), with a rapidly expanding ecosystem, rising investment, and government support, could boost productivity and innovation over time.

Fiscal strength

The UK's fiscal profile is characterised by elevated public debt, with general government gross debt estimated at around 104% of GDP in 2025. Fiscal deficits remain sizeable but are on a narrowing trend. The general government deficit, estimated at around -4.3% of GDP in 2025, is projected to decline to about -2.0% in 2028, reflecting gradual consolidation.

Consolidation is expected to be driven by revenue measures rather than expenditure cuts, with tax revenue projected to rise steadily to 37.6% as a share of GDP in 2027-28 from 34.5% in 2024-25. The UK retains fiscal space to increase revenues, given its relatively moderate tax-to-GDP ratio compared with other European peers. Nonetheless, implementation risks are material. Planned consolidation is partly backloaded and dependent on politically sensitive tax measures, particularly in the run-up to the next general election expected by 2028, which could constrain policy execution.

Though, the UK's debt burden is high, its fiscal trajectory and institutional credibility compare favourably with many advanced economy peers. Several structural features support fiscal sustainability, including a long average maturity of government debt, a predominantly domestic investor base, and minimal foreign currency exposure, alongside the reserve currency status of sterling. These factors help mitigate refinancing and currency risks.

External position & linkages

The UK's external profile is characterised by persistent current account deficits and a large external balance sheet, reflecting its role as a global financial center. The current account deficit is estimated at around 3.1% of GDP in 2025 by the International Monetary Fund (IMF) and is projected to narrow modestly over the medium term, averaging 2% of GDP, driven by structural trade deficits in goods and income outflows.

The country's net international investment position (NIIP) remains moderately negative, estimated at around -7% of GDP in 2025. Its external liabilities continue to be financed through sustained capital inflows, including portfolio and other investment flows.

The UK's gross external debt remains very high, estimated at above 270% of GDP in 2024, reflecting the scale of cross-border financial activities in London. A key vulnerability stems from the UK's large external financing requirement, underpinned by high share short-term external debt by residual maturity~~.~~

The pound sterling's status as a freely floating and actively traded global currency, alongside the UK's deep and highly liquid capital markets, helps mitigate external vulnerabilities.

Monetary & financial stability

Inflation has re-emerged as a key challenge, with CPI estimated at 3.4% in 2025, driven by increases in administered prices, including utilities and housing-related costs. Inflation is expected to remain elevated in the near term, close to 3.2% in 2026, before gradually easing and returning to the 2% target by around end-2027, conditional on energy prices stabilising.

The Bank of England (BoE) has maintained a cautious stance, pausing the rate cut cycle and signalling readiness to tighten further if inflation proves persistent, particularly in the event of prolonged energy shocks.

The banking sector is resilient, with strong capital buffers and improved profitability, supported by higher interest rates and robust earnings growth. The current environment of interest rates remaining significantly higher than the pre-pandemic levels supports bank profitability, mainly through improved net interest margins, as lending rates have been repriced faster than deposit costs. However, these gains are partly offset by rising funding costs and potential asset quality pressures. Overall, monetary credibility and financial system strength remain key anchors.

Institutions & quality of governance

The UK continues to benefit from strong, transparent, and well-established institutions, supported by a robust legal framework, policy credibility, and effective checks and balances. However, political uncertainty has re-emerged as a key risk to policy continuity.

While the Labour Party secured a decisive mandate in 2024, the resignation of Prime Minister

Keir Starmer, marking the seventh leadership change in the UK within a decade, highlights elevated political turnover and near-term uncertainty in executive leadership. Nevertheless, the UK's strong institutional framework, well-established fiscal rules, and credible policy oversight, are expected to support broad policy continuity.

Despite these political challenges, the UK retains strong institutional anchors. The BoE maintains operational independence and a credible monetary policy framework, while the OBR continues to provide independent fiscal oversight, reinforcing policy transparency and discipline.

Select indicators									
	Unit	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026 F**	**2027 F**
Economic indicators									
Nominal GDP	USD billion	2,726	3,195	3,193	3,422	3,695	4,003	4,265	4,466
GDP per capita (constant-PPP)	USD	49,717	53,773	55,992	55,415	55,407	55,974	56,127	56,647
Real GDP growth	%	-10.0	8.5	5.1	0.3	1.0	1.4	0.8	1.3
GFCF/GDP	%	18.2	18.5	19.0	18.9	18.7	18.9	-	-
Gross domestic savings/GDP	%	16	18	17	15	16	15	16	17
Exports (G&S)/GDP	%	29.9	29.3	34.1	31.9	31.0	31.0	-	-
Working age (15-64) population (% share in total)	%	63.4	63.4	63.4	63.4	63.3	63.3	63.3	63.3
Old age (65+) population (% share in total)	%	18.6	18.7	18.9	19.2	19.5	19.7	19.9	20.2
Fiscal indicators – general government									
Fiscal balance/GDP	%	-12.9	-7.5	-4.6	-6.0	-6.1	-5.4	-3.9	-3.1
Revenue/GDP	%	36.4	37.4	38.6	38.1	37.6	38.3	40.0	40.9
Expenditure/GDP	%	49.3	44.9	43.2	44.2	43.7	43.6	43.9	44.1
GG gross debt/GDP	%	104.8	103.4	97.5	98.9	99.9	102.3	103.6	104.1
GG external debt (by creditor)/GG gross debt	%	21.6	21.5	16.8	17.4	18.0	18.2	-	-
Interest/revenue	%	6.1	7.9	11.8	9.1	8.3	-	-	-
External indicators									
Current account balance/GDP	%	-2.7	-0.8	-1.9	-3.6	-3.0	-3.1	-3.4	-3.1
FDI, net inflows/GDP	%	5.8	3.2	2.9	0.4	-0.4	1.9	-	-
Outstanding FII liabilities/GDP	%	173.1	158.8	122.7	127.4	121.8	137.6	-	-
NIIP/GDP	%	-9.7	-13.6	-2.4	-9.9	-5.9	-6.7		-
Foreign exchange reserves	USD billion	187	204	186	190	186	225	-	-
Import cover	Months	2.7	2.5	1.9	1.9	1.8	2.0	-	-
External debt/GDP	%	357.1	306.1	287.0	280.3	266.1	276.3		-
Monetary and financial indicators									
CPI inflation	%	0.9	2.6	9.1	7.3	2.5	3.4	3.2	2.4
Exchange rate (average)	LC per USD	0.8	0.7	0.8	0.8	0.8	0.8	-	-
Non-performing loans/total gross loans	%	1.0	1.0	0.9	1.0	1.0	0.9	-	-
Private debt, loans and debt securities/GDP	%	176.7	163.9	148.5	140.6	137.3	132.8	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. Latest available data for 2025

Solicitation status

The rating is unsolicited, but with limited interaction with relevant authorities of the government.

Rating history

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge AA-/Stable	June 26, 2026
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge AA-/Stable	June 27, 2025
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge AA-	October 03, 2024

Criteria applied

CareEdge Sovereign Rating Methodology

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